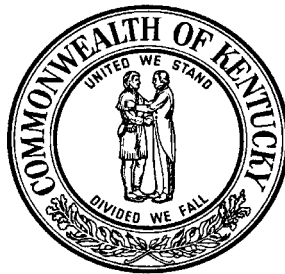


**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 6, 2003



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Michael Patrick, Whitley County Judge/Executive

Honorable Lawrence Hodge, Whitley County Sheriff

Members of the Whitley County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, P.S.C., Certified Public Accountants, presents the Whitley County Sheriff's Settlement - 2002 Taxes as of August 6, 2003.

We engaged Carpenter, Mountjoy & Bressler, P.S.C. to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, P.S.C. evaluated the Whitley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

August 6, 2003

Carpenter, Mountjoy & Bressler, P.S.C. has completed the audit of the Sheriff's Settlement - 2002 Taxes for Whitley County Sheriff as of August 6, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,147,192 for the districts for 2002 taxes, retaining commissions of \$47,349 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,094,658 to the districts for 2002 Taxes. Taxes of \$1092 are due to the districts from the Sheriff.

Report Comment:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

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Honorable Lawrence Hodge, Whitley County Sheriff

Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the Whitley County Sheriff's Settlement - 2002 Taxes as of August 6, 2003. This tax settlement is the responsibility of the Whitley County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Whitley County Sheriff's taxes charged, credited, and paid as of August 6, 2003, in conformity with the modified cash basis of accounting.

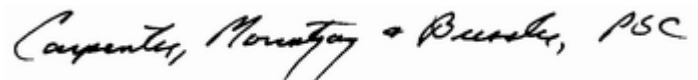
To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Michael Patrick, Whitley County Judge/Executive
Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, P.S.C.

Audit fieldwork completed -
December 1, 2003

WHITLEY COUNTY
LAWRENCE HODGE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

August 6, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Tranferred From Former Sheriff	\$ 152,589	\$ 191,860	\$ 513,612	\$ 285,677
Fire Protection	820			
Increases Through Exonerations	834	1,044	3,127	1,439
Transferred From Former Sheriff - Franchis	450	540	20	
Error on Incoming Franchise Receipt	63	86	243	
Prior Year Franchise	550	655	1,866	
Current Year Franchise	45,940	59,136	181,013	
Transferred From Former Sheriff - Unmine	32	40	157	53
Oil and Gas Property Taxes	1,856	2,320	9,186	3,132
Omitted Gas Taxes	333	382	1,590	546
Penalties	5,924	7,423	20,453	11,115
Gross Chargeable to Sheriff	\$ 209,391	\$ 263,486	\$ 731,267	\$ 301,962
<u>Credits</u>				
Exonerations	\$ 1,474	\$ 1,833	\$ 6,023	\$ 2,440
Discounts	2	2	8	3
Delinquents:				
Real Estate	43,463	53,871	150,575	72,726
Tangible Personal Property	1,107	1,488	1,980	4,524
Intangible Personal Property				1,323
Unmined Coal - 2002 Taxes	17	22	86	29
Uncollected Franchise	2,761	3,474	9,684	
Total Credits	\$ 48,824	\$ 60,690	\$ 168,356	\$ 81,045
Taxes Collected	\$ 160,567	\$ 202,796	\$ 562,911	\$ 220,917
Less: Commissions *	6,824	8,619	22,517	9,389
Taxes Due	\$ 153,743	\$ 194,177	\$ 540,394	\$ 211,528
Taxes Paid	153,078	193,098	538,715	209,767
Refunds (Current and Prior Year)	532	642	1,380	1,538
Due Districts or (Refund(s) Due Sheriff)		**		
as of Completion of Fieldwork	\$ 133	\$ 437	\$ 299	\$ 223

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
LAWRENCE HODGE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
August 6, 2003
(Continued)

4.25% on	\$	584,280
4% on	\$	562,911

** Special Taxing Districts:

Library District	\$	45
Health District		269
Extension District		95
Soil Conservation District		<u>28</u>

Due Districts or (Refund(s) Due Sheriff)	\$	<u><u>437</u></u>
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The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

August 6, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 6, 2003 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
August 6, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2003 through August 6, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2003 through August 6, 2003.

Note 4. Interest Income

The Whitley County Sheriff earned \$1,365 as interest income on 2002 taxes. As of August 6, 2003, the Sheriff owes \$570 to the Common School District and \$73 to the Corbin Independent School District in interest to and \$722 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Whitley County Sheriff collected \$21,388 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs and Fees

The Whitley County Sheriff collected \$768 of advertising costs and \$4,365 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of August 6, 2003, the Sheriff owes \$374 in advertising fees to his fee account.

Note 7. Tax Account Surplus

The Sheriff's tax account had a surplus of \$8,768 as of August 6, 2003. The Sheriff has attempted to return overpayments to taxpayers. These funds should be placed into an escrow account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

COMMENT AND RECOMMENDATION

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENT AND RECOMMENDATION

August 6, 2003

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140 (3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During the 2002 tax collection period, interest in the amount of \$1,365 was earned on the tax account. However, interest was not paid to the school districts on a monthly basis. As of August 6, 2003, the sheriff owes the Corbin Independent Board of Education \$73 and the Whitley County Board of Education \$570 in interest. Additionally, \$722 is owed to the sheriff's fee account. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school districts and fee account on a monthly basis.

Sheriff's Comment: Will transfer to fee account.

PRIOR YEAR COMMENT:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This issue has not been corrected and is repeated in the current audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Certified Public Accountants and Consultants

The Honorable Michael Patrick, Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Whitley County Sheriff's Settlement - 2002 Taxes as of August 6, 2003, and have issued our report thereon dated December 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's Settlement - 2002 Taxes as of August 6, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

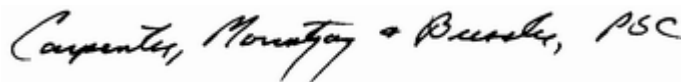
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, is not intended to be, and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in dark ink on a light-colored background.

Carpenter, Mountjoy & Bressler, P.S.C.

Audit fieldwork completed -
December 1, 2003

